

## North American Utilities &amp; IPPs

## The ESG Antidote: Why Water is a Win/Win

## Industry Overview

Takeaways from our 2<sup>nd</sup> Annual Water on Wall Street

Late last week, we hosted our Second Annual Water on Wall Street conference with ARTNA, AWK, AWR, CWT, ES, MSEX, SJW, WTRG, as well as a number of state regulators, industry experts and water equipment makers. There were a variety of panels throughout both days with updates from company management teams and a wide range of perspectives on the latest trends and the state of the water industry. We left our latest conference increasingly bullish on the water sector, seeing elevated EPS and DPS growth well into the future along with ESG tailwinds that seem unlikely to abate. We prefer WTRG- with its similarly elevated EPS growth to AWK – and very much intact view of EPS despite tax nuance; mgmt. could very well extend out growth targets over time as water & gas normalized (expect 'normal' 3-yr view in Jan still). Bottom line, this remains our 'go to' in the space- even *after* its recent recovery trade. Finally, while the loss of California decoupling provides varying degrees of exposure across the sector, we perceive protracted implementation enables appeal process & mitigating processes to work their way into planning. We see continued positive bias for water utilities alongside renewable energy investments earning renewable returns as among the more desirable opportunities for investors seeking compounding, sustainable earnings and div growth while desiring clean attributes. See parallel AWK upgrade to Neutral today [here](#).

## LT visibility to elevated growth &amp; ESG tailwinds

We came away particularly impressed by the elevated EPS and dividend trajectories for the sector, and see visibility to long term organic rate base and accelerating acquisition prospects as municipal budget deficits and FMV legislation drive further privatization efforts (appears '20 acceleration already). With ~44% of all of the water pipe across the US currently classified as poor (up from ~10% in 1980), we see no shortage of investment opportunities and discussions highlighted that about a trillion dollars in spend is currently needed to bring all of the systems up to date. Meanwhile, relative to more carbon-heavy electric and gas peers, we think water remains the clear cut way to play ESG themes as a utility investor. That said, the water sector has materially underperformed relative to other ESG friendly US renewable names (vs. FSLR, BE, RUN, NOVA, and ENPH; see table one in the full note for latest stock performance). Aside from the unfavorable decoupling decision by the CPUC likely to increase rate base contention and drive earnings volatility for companies exposed to the state (a small part of AWK's consolidated biz), discussions around regulatory treatment for the sector were generally constructive and we don't see particular discrete concerns looking forward. Bottom line, we see increasing merit to premiums for the water sector well above electric and gas peers – due to both sustainable earnings growth justifying P/E-to-G ratios & comps across Clean & YieldCo spaces. If anything else, expanded est of elevated multiples in adjacent clean spaces (well above that of Water & AWK) – justifies valuations, in our view. We believe the water sector *overall* could perform relatively well – and could still eek out a further bid vs electric peers.

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FMV: Fair Market Value

CPUC: California Public Utilities  
Commission

EPA: Environmental Protection  
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## Why are we so constructive on water utilities now?

We bullet out the key factors in our mind below but stress for those investors who have only looked at just AWK and WTRG, the entire sector is full of consistent EPS and DPS growth (even if lumpy at times due to discrete rate cases). The outsized growth of the two largest peers in the space understates the consistent trend of growth across the wider sector. We include historical table below; bottom line, while this trend is exceptional relative to the ~5% growth achieved in utilities, the elevated P/E multiple that is 60% higher on average could be explained by its relative P/E-to-G multiple at a minimum (an *increasingly* employed metric given growth co's involved), but ever more supported by emerging high multiple clean alternatives across sector.

Our growing confidence in long-term compounding prospects alongside what is an increasingly supported multiple offer our improved confidence against what is otherwise an admittedly elevated peer group multiple. While it is difficult to have a more positive view on AWK given its 30x+ P/E on '23 EPS, we perceive WTRG as a key opportunity given its compounding re-rating and what should prove meaningfully less contentious EPS growth trajectory. While we acknowledge dilutive effect of its gas LDC acquisition, we stress its ability to drive a consistent 3-year EPS CAGR (irrespective of what happens on repairs tax true-up) and growing ability to articulate a longer term growth outlook (perhaps in future updates beyond Jan '21 release of latest guidance). As integration is fully reflected, we see a normalized outlook without adjustments and clean baseline for growth. On balance, this remains our favorite name in the Water sector at just 25x '23 P/E.

## COVID just the latest push for industry consolidation

The latest conference highlighted the incredibly fragmented nature of the water industry, with over 50K community water systems & 15K wastewater systems relative to ~3200 electric and ~1000 gas LDCs (Local Distribution Company). This remains particularly glaring given 16% of water systems are Investor owned (with an even more notable ~2% investor owned for wastewater) and with 92% of systems serving less than 10K customers. Even prior to COVID, the industry was ripe for consolidation against a backdrop of favorable legislation and higher compliance burdens around emerging contaminants. Twelve states have now adopted FMV legislation with both Consolidated Tariff and Water Quality Legislation also continuing to gain momentum. The EPA has currently established health advisory levels for PFA at 70 parts per trillion, but we perceive a broader mandate for the industry as on the horizon amid some discrete state-level requirements already. That said, the latest pressures put on munis from the ongoing pandemic are just another factor in the perfect storm to accelerate the consolidation trend. Meanwhile, a further environmental push under a Biden administration could provide additional capital opportunities as compliance costs with PFAs (per- and polyfluoroalkyl substances) and water quality concerns have already started contributing to the push away from muni owned water systems

## Contemplating the Setup for the Sector

We left our Second Annual Water on Wall Street Conference increasingly constructive on prospects for the sector for the foreseeable future. We see visibility well into the future for earnings trajectory given both organic opportunities and the clear cut industry consolidation trends that we expect to continue to accelerate amid the lingering pandemic.

Meanwhile, we stress the water utility sector as the clear cut way for utility investors to play the ESG theme over the coming years given their lack of carbon exposure vs. both electric and gas utility peers. Despite this, the sector has materially underperformed other ESG friendly US renewable names (vs. FSLR, BE, RUN, NOVA, and ENPH). The exhibit below reflects water utilities stock performance on a one week, one month, three month, and YTD vs. US solar plays, with the sector materially underperforming despite a much better proven track record.



**Table 1: Stock Performance: Water Utilities Materially Underperforming US Renewables by a good bit...**

Water Utilities	Ticker	One Week	One Month	Three Month	YTD
American Water	AWK	-1.4%	-8.1%	3.3%	20.7%
Essential Utilities	WTRG	0.7%	6.4%	20.8%	1.4%
American States Water	AWR	3.7%	-0.1%	6.4%	-11.0%
SJW Group	SJW	3.7%	4.8%	15.4%	-2.4%
Artesian Water	ARTNA	2.2%	0.8%	15.0%	5.8%
Middlesex Water Company	MSEX	6.1%	5.0%	15.6%	17.3%
California Water Services	CWT	4.9%	-0.2%	21.0%	1.4%
York Water	YORW	5.9%	6.8%	13.5%	7.0%
US Renewables	Ticker	One Week	One Month	Three Month	YTD
First Solar Inc	FSLR	-2.7%	8.0%	18.5%	54.3%
SunPower Corp	SPWR	2.1%	13.2%	95.1%	321.0%
Bloom Energy	BE	-10.7%	36.7%	70.6%	230.4%
SunRun	RUN	-0.6%	5.2%	-4.5%	322.0%
Sunnova Energy	NOVA	1.5%	20.4%	48.8%	252.2%
Enphase	ENPH	8.2%	20.0%	93.9%	435.4%

Source: BofA Global Research, Bloomberg

## But just how fast has the sector actually grown?

Consistently better than Utility alternatives: we provide comments provided by companies across the sector on both historical and prospective growth commitments. Bottom line, we see nearly uniform high single digits ratebase growth across the sector (rather than AWK being the unusually elevated company). We perceive ratebase growth as still in the midst of execution – rather than reaching the ‘end’ of its reinvestment cycle. We perceive few specific regulatory consternations – with in fact many pointing to the need for more consolidation to enable greater scale. If anything what remains critical to the industry is ensuring cost efficiencies to offset otherwise bill inflation. This remains critical as FMV acquisitions drive shifts in tariffs across customers as well.

**Table 2: Contrasting commitments on EPS, DPS, and Ratebase across sector: mixed disclosures – but trajectory is clear**

Companies	EPS (CAGR)	DPS (CAGR)	Rate Base
American Water Works (AWK)	2020-2024 expected 7-10%	2020-2024 projected high end of 7-10%	NA
American States Water (AWR – Not Rated)	2009-2019: 10.7%	2010-2020: 9.4%, guiding 7% going forward	Planned capex going forward remains at 3.5-4x depreciation
Aquarion – Eversource (ES)	NA	NA	2017-2024 expected 8% rate base CAGR
Artesian Resources (ARTNA – Not Rated)	NA	Expected 3%	NA
California Water Service Group (CWT – Not Rated)	NA	NA	2008-2019: 9.7%
Essential Utilities (WTRG)	Expected 5-7% through 2022	NA	NA
Middlesex Water (MSEX - Not Rated)	NA	NA	Capex forecast of \$295Mn in 2020 through 2022
SJW Group (SJW – Not Rated)	5% LT	Committed to a dividend payout ratio of 50-60%	2016-2021 projected: 13%

Source: BofA Global Research estimates &amp; Bloomberg; industry presentations &amp; commentary from conference for uncovered companies

We also include the existing historical EPS growth rates across the sector to provide a bit more perspective across the peers- admittedly AWK stands out clearly vs. peers on its ability to consistently execute and explains its notable premium. If anything, we perceive re-acceleration of growth underway across peers beyond just AWK's consistency.

**Table 3: EPS Growth over Time Across the Water Industry: entire sector's performance is well in excess of trends elsewhere**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average EPS Growth - over decade	EPS CAGR - over decade	EPS Growth 2019- 2020E	EPS CAGR - 5YR - 2015- 2020E
AWK	22%	18%	17%	4%	10%	9%	8%	7%	9%	9%	8%	9%	7%	11%	11%	8%	8%
WTRG	17%	4%	40%	10%	3%	5%	5%	4%	3%	4%	6%	6%	9%	10%	9%	6%	4%
SJW	60%	-28%	27%	-5%	121%	-25%	39%	11%	-12%	-29%	16%	16%	7%	16%	8%	16%	2%
ARTNA	3%	-17%	36%	-17%	14%	18%	12%	7%	2%	4%	11%	4%	na	6%	5%	11%	7%
CTWS	-5%	14%	19%	8%	16%	6%	2%	2%	-35%	na	na	na	na	3%	na	na	na
MSEX	33%	-13%	7%	14%	10%	8%	13%	0%	42%	3%	6%	4%	3%	12%	11%	6%	12%
CWT	-7%	-6%	37%	-13%	17%	-21%	7%	39%	-3%	-4%	28%	1%	7%	5%	3%	28%	12%
Avg	18%	-4%	26%	0%	27%	0%	12%	10%	1%	-2%	13%	7%	7%	9%	6%	13%	3%

Source: BofA Global Research, Bloomberg; consensus applied for uncovered names (we only cover AWK and WTRG)

## Contemplating the Regulatory & Legislative Backdrop

Aside from the unfavorable decoupling decision by the CPUC likely to increase rate base contention and drive earnings volatility for companies exposed to the state, discussions around regulatory treatment for the sector were generally constructive. We perceive continued support in surcharges like the DSIC (Distribution System Improvement Charge) to drive critical investment spend longer term and see commissions as continuing to engage with companies around COVID challenges and navigating through as the pandemic continues to linger. As we await a broader mandate around PFAs and water quality, regulatory support across states will remain critical to watch: We don't expect it to be too controversial. Meanwhile, we perceive legislation such as Fair Market Value legislation, Single Tariffs, and the Water Quality Accountability Act will all continue to gain momentum, setting up opportunities for further consolidation.

## Company Highlights

We include our latest company takeaways below:

### Essential Utilities (WTRG)

Latest discussions with WTRG management stressed confidence around execution of their strategy with the company successfully navigating the pandemic while integrating their Peoples Gas acquisition. Despite COVID, the company previously noted expectations to be at the top end of the 2020 range and affirmation of their 5-7% EPS growth through '22. The company is poised to roll forward their guidance on January 11<sup>th</sup>, and we perceive more announcements to come on the acquisition front. Recall the company has elected to use Repairs Tax accounting treatment and has effectively implemented the last several months – with guidance of \$0.08-\$0.12 benefit annually. We await developments around the regulatory process of the catch up component after the earlier filing, with resolution expected early in April of 2021. Rather than drive incremental upside to their 5-7% EPS CAGR, the filing seeks to extend the growth without a need for a rate case. As opposed to going in for new rates in 2023 to take effect in 2024, a constructive outcome from the catch up filing would benefit '23, with incremental benefits in '24, and '25 to help drive earned returns for the segment in outer years without any rate relief until 2026: the repairs tax debate boils down to Peoples Gas ROE lag in '23 likely to a modest degree. On balance we are comfortable in mgmt's ability to manage lag around its ROEs at core water utilities including PA into a potential water filing next year.

With FMV legislation now in all eight water & wastewater states in WTRG's footprint following the passage in Virginia earlier this year, the company continues to execute on tuck in acquisitions and discussions continue to highlight a robust pipeline of opportunities. Management remains confident on the DELCORA process, with a regulatory approval expected in mid-March. This would put the company on track to



potentially close the transaction in April or May after the 30 day appeal window. Meanwhile, a decision is expected from a judge within 60 days after the recent hearing regarding the litigation around the trust. Recall the company has until August to pull on the ~\$300Mn equity forward to be used for DELCORA and other acquisitions.

We reiterate our Buy rating, seeing upside risk in the event of better than expected execution on their long-term growth rate.

## American Water Works (AWK)

Ahead of their upcoming 2021 guidance and outlook roll forward, AWK management continued to highlight confidence across their business and around their ability to execute on their strategy through both the lingering pandemic and the longer term. Despite the ongoing impact of COVID, latest disclosures with their 3Q update brought the midpoint of full year 2020 guidance back to the original 2020 guidance on an adjusted basis – and we see the company as poised to extend expectations another year: We don't perceive a pivot from the strategy with management seemingly committed to their growth triangle and the largely regulated portfolio. As such, we expect continued guide towards 7-10% EPS growth through 2025 with their full year results.

As the largest publicly traded water utility with a regulated footprint across 14 states, AWK is poised to benefit from enabling legislation and the continuing acceleration in consolidation across the industry. FMV legislation has been enacted in ten of their states including the top 7 (which make up 88 % of their biz by revenue).

95% of their acquisitions over the last five years have been in states that have enacted the legislation. Meanwhile, the company now enjoys consolidated tariffs in 12 states and water accountability legislation in three. We see the latest pressures from both COVID and water quality standards as likely to further accelerate the trends. After our event, the company announced the latest completed tuck in acquisition of Four Lakes Water Distribution System in Illinois American Water's Chicago Metro Area (\$900K and 1300 households). With a line of sight to \$20-\$22Bn of investment over the ten year period, we see no slowdown in opportunities even through the longer term, particularly given the consolidation backdrop. The earlier decision to de-lever the balance sheet should further provide additional flexibility to pursue acquisitions.

We upgrade AWK shares to Neutral following the latest constructive conference and a more fairly balanced risk/reward. [Click here for the parallel upgrade.](#)

## Aquarion – Eversource (ES)

We hosted meetings with Aquarion Water, ES' regulated water utility subsidiary that comprises 5% of the company's rate base. The company is one of the ten largest privately-owned water utilities in the US and the largest investor-owned water utility in NE serving ~214K customers in NH, MA, and CT. Following the sale to ES, Aquarion's rate base is expected to grow nearly 3x faster than before the acquisition to a rate base of ~1.3Bn in 2024, reflecting an 8% rate base CAGR off the 2017 base. We perceive opportunities beyond this as the industry continues to consolidate from the 50,000+ water systems that are in the US today. Since 2011, Aquarion has closed 24 transactions, with two small acquisitions currently before regulators – and discussions stressed the constructive regulatory backdrop to further promote muni deals. We see the M&A focus going forward on larger opportunities over a thousand connections in both water & wastewater. Maintain our Neutral rating on ES given balanced risk/reward.

## American States Water (AWR – Not Rated)

American States Water Company (AWR) is a consolidated low volatility water company that operates through 3 subsidiaries: 1) Golden State Water Company (GSWC), Bear Valley Electric Service, Inc. (BVESI), and 3) American States Utility Services (ASUS). The company recently spun out BVESI to insulate it from the rest of the company, but stressed the higher elevation (7000ft) and stronger build to whether ice and snow required above 3000ft – stressing the differences in risk relative to some other parts of

California. The regulated water and electric utility serves 261,000 and 24,000 customers across California, respectively, while ASUS is a contracted service for water/wastewater systems that serves military bases under 50-year contracts, largely competing with AWK.

The EPS breakdown is comprised 72% from GSWC, 7% from BVESI, and 21% from ASUS with the company growing earnings at a ten year CAGR of 10.7% through 2019. Going forward, the company is guiding to dividend growth of 7%, stressing potential room to grow from the company's earnings prospects: planned capex going forward remains at 3.5-4x depreciation. Given the rate case filing in July, the company doesn't expect to lose decoupling until 2025 (after the commission subsequently opted to eliminate it on August 27th) and view the language in the decision as supporting Golden State Water's position that it does not apply to its general rate case application filed earlier this summer (which will set new rates for '22-24). The company may still have the ability to use the Monterey-style WRAM for partial price adjustment protection.

### **Artesian Resources (ARTNA – Not Rated)**

ARTNA is a \$400Mn market cap water utility headquartered in Newark, DE providing water services in parts of Delaware, Maryland, and PA. The company services more than 118K metered customers and supplies over 8.3Bn gallons of water per year through more than 1,331 miles of water mains. Through public-private partnerships, the company provides a variety of water and wastewater-related services to several municipalities with latest discussions suggesting the primarily resi based business as not materially impacted by COVID. The company continues to focus on organic growth on the Delmarva Peninsula and growth has been around 1-2% across their footprint in addition to several recent acquisitions. The company alluded to 3% dividend growth.

### **California Water Service Group (CWT – Not Rated)**

We hosted meetings with management of CWT – the second largest (\$2.5Bn market cap) pure play water company in the US. The latest 2018 California GRC adopted on Dec 3<sup>rd</sup> allows 3-year CapEx of \$828m, adopting a \$1.5bn rate base in 2020, with the company growing investment at a ten year CAGR of 9.7% through 2019. As they appeal the recent CPUC decision to eliminate decoupling in California, discussions stressed any overturn as unlikely before the next GRC and they expect the shift to make rate cases more contentious and drive rate design changes, potentially reducing conservation incentives and increasing volatility. COVID has increased the number of delinquencies with 60,000 customers behind on payments - raising the company's bad debt reserve to \$2.7Mn (albeit the state has provided an emergency memo account for COVID related expenses). Overall, the capital program remains robust and running 3x depreciation, while acquisition opportunities remain strong with five more acquisitions in progress after closing the Rainier View deal in June.

### **Middlesex Water (MSEX - Not Rated)**

We hosted meetings with MSEX, a \$1.3Bn regulated water utility with operations in NJ and DE. Discussions emphasized robust investment opportunities, with a capex forecast of \$295Mn in 2020 through 2022, including a \$70Mn CJO plant upgrade in New Jersey anticipated to complete in mid-2021. MSEX is subject to a Distribution System Improvement Charge (DSIC) in both its NJ and DE jurisdictions which allows accelerated recovery of certain pre-approved investments subject to a cap. While favorable legislation such as FMV is helping drive consolidation across the industry, MSEX doesn't currently enjoy such legislation in their states at this point in time. Nonetheless, discussions still suggested muni opportunities materializing with the Water Quality Act in NJ and as more and more munis look to get help from IOUS. The company has not articulated a formal EPS target.





## SJW Group (SJW – Not Rated)

We hosted meetings with SJW, the second-largest pure-play water/wastewater utility by rate base in the US. Discussions emphasized the company's growth strategy including Capex, constructive regulatory relations, and acquisitions. After the earlier transformative M&A, the footprint now includes San Jose Water (regulated utility in California), Conneticut Water, Maine Water, SJWTX (regulated utility in TX), and SJW Land Company (unregulated biz in California). The company is committed to a dividend payout ratio of 50-60% and seeks to grow earnings around 5% longer term – and stressed additional capital opportunities above plan including further municipal acquisitions. The company estimated over \$230m of Capex in 2021, implying 5 year CAGR of 13% through 2021. Despite the latest decoupling setbacks for the water industry in the state of California with the CPUC's decision to eliminate it, SJW didn't employ the mechanism and instead remains well protected with the Monterey-style WRAM in place. After earlier issues with guidance, the company noted that guidance will be released after the rain season going forward in order to more accurately reflect any water costs.

## The Tech Angle: AQUA, BMI, Ionic Water & XYL

We held meetings with AQUA, BMI, Ionic Water, and XYL for perspective and latest updates from technology providers.

**Ionic:** Start-up company by same developer of EOS stationary batteries. Focused on PFOA solution with regenerative (reusable) activated carbon solution. See potentially material cost reductions to cost of water purification along with substantial reductions in use of activated carbon (presently consumed in large quantities).

**AQUA:** Evoqua is a \$2.8Bn market cap company that provides water treatment equipment and services through two segments, Integrated Solutions and Services and 2) Applied Product Technologies. Discussions stressed that COVID had led to rapid growth in outsourced water, creating short term revenue challenges but paving a way for long term success as projects take 12-24 months until they are fully operational. Looking forward, their base case guidance into 2021 is flat to slightly up sales and adjusted EBITDA y/y as the pandemic continues to linger.

**BMI:** Badger Meter is a \$2.6Bn market cap company that manufactures and markets flow measurement and control products focused on smart meters in the water sector. Latest discussions stressed that after a very challenging second quarter, business bottomed in April and organic growth has started to resume. While the company doesn't provide formal guidance, they expect 5% growth on the utility business longer term on higher average selling prices, and expect software as a service to grow to 10% of their biz. Only ~60% of the US market currently has some form of AMR/AMI (automated meter reading / advanced metering infrastructure), and while likely slow to adopt, this provides a long runway of potential growth along with upgrades from AMR to AMI. Meanwhile, with 80% of their utility biz in the US, discussions noted potential for international tailwinds through the strategic cycle. While small, their recent acquisition of S:CAN has an installed base in 50 countries to help further accelerate their international push.

**XYL:** Xylem Inc is an \$18Bn market cap designer, manufacturer, equipment, and service provider for water and wastewater applications addressing the full-cycle of water from collection, distribution, and use to the return of water to the environment. By geography, the bulk of revenue is generated in the US (45%) while Western Europe, Emerging Markets, and the rest of the world comprise 26%, 21%, and 8%, respectively, while end markets are broken down by utilities at 50%, industrial at 35%, commercial at 10%, and resi at 5%. Discussions stressed the company as well positioned to grow faster than the market the next several years and a likely pickup in growth in 2H as we start to recover from the pandemic – with signed contracts building up given the delay in work.

**Table 4: Stocks mentioned**

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AWK	AWK US	American Water	US\$ 148.55	B-2-7
WTRG	WTRG US	Essential Utilities	US\$ 47.07	B-1-7
ES	ES US	Eversource Energy	US\$ 85.46	B-2-7

Source: BofA Global Research

## Price objective basis & risk

### American Water Works (AWK)

Our PO for American Water Works is \$155. We apply the sector average 27.8x to American Water's 2023E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, and IL, and a -3x discount to the non-regulated Retail biz. Also a -1x P/E for Cali utility. no prem/discount for 'Other' segment with smaller state exposures.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities.

Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions.

### Essential Utilities (WTRG)

Our price objective is \$51 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 25.5x and 13.9x. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

### Eversource Energy (ES)

Our sum of the parts based price objective of \$93 uses P/E multiples on 2023E earnings. For electric utilities, we attribute a 4x premium NSTAR, and 3x premium to PSNH and CL&P to peer 16.6x multiple, reflecting future potential positive revisions to capex and earnings. For gas, we apply a 3x premium to the peer 15.0x multiple, given capex upside particularly in MA and a 2x for Columbia Gas. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value Aquarion at a 1x premium to the 26.5x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis. We further reflect a devco value with an assumption of an additional 3GW through 2031. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage.

Upside risks to our price objective are additional capex announcements on the T&D side, as well as success in offshore wind RFPs.

Downside risks are reduction in authorized ROEs, inability to meet earned ROE expectations, as well as failure to receive permitting on incremental capex opportunities

## Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also





certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



**North American Utilities, Alternative Energy & LNG Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith



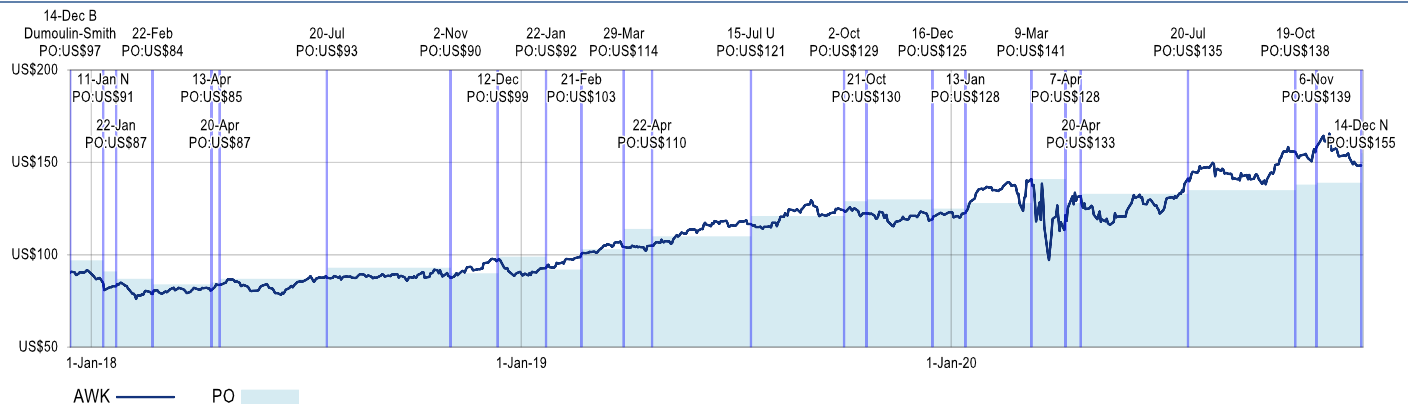
## North American Utilities, Alternative Energy &amp; LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith

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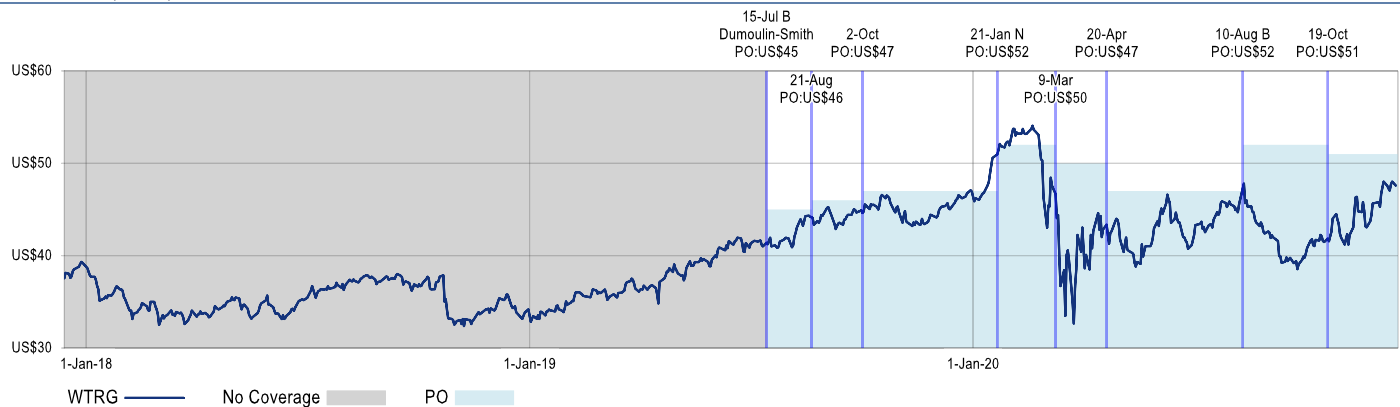
## American Water (AWK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

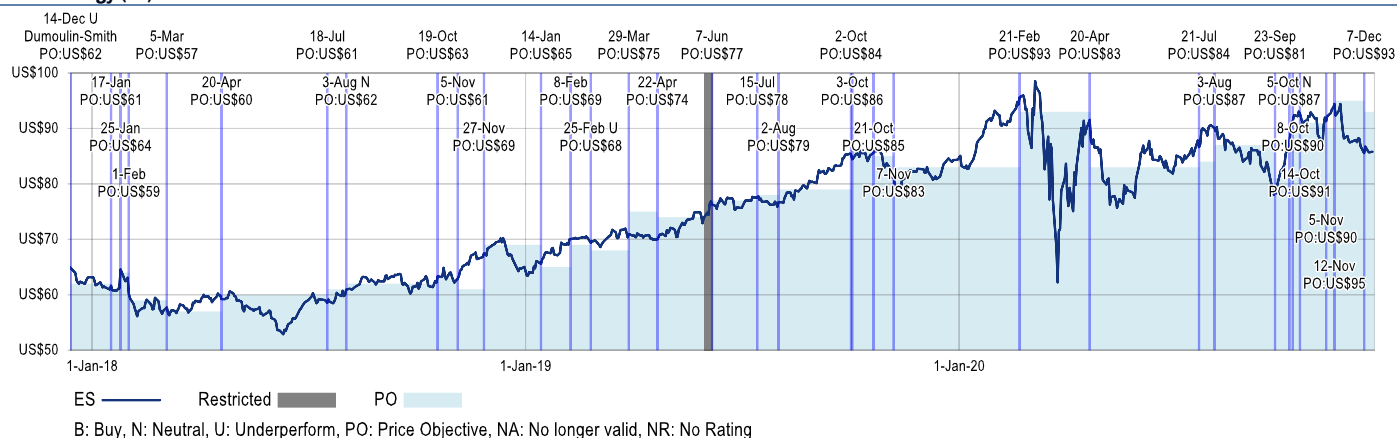
## Essential Utilities (WTRG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Eversource Energy (ES) Price Chart**

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**Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2020)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	51.63%	Buy	59	74.68%
Hold	36	23.53%	Hold	24	66.67%
Sell	38	24.84%	Sell	25	65.79%

**Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

\* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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